Gross Value Added

GS-Paper-III Economics

In 2015, India opted to make major changes to its compilation of national accounts and decided to bring the whole process into conformity with the United Nations System of National Accounts (SNA) of 2008. The SNA is the internationally agreed standard set of recommendations on how to compile measures of economic activity. It describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules.

As per the SNA, GVA is defined as the value of output minus the value of intermediate consumption and is a measure of the contribution to growth made by an individual producer, industry or sector. It provides the rupee value for the number of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services.

- It can be described as the main entry on the income side of the nation’s accounting balance sheet, and from an economics perspective represents the supply side.
- At the macro level, from a national accounting perspective, GVA is the sum of a country’s GDP and net of subsidies and taxes in the economy.

Gross Value Added = GDP + subsidies on products - taxes on products

Earlier, India had been measuring GVA at ‘factor cost’ till the new methodology was adopted in which GVA at ‘basic prices’ became the primary measure of economic output.

- GVA at basic prices will include production taxes and exclude production subsidies.
- GVA at factor cost included no taxes and excluded no subsidies.

The base year has also been shifted to 2011-12 from the earlier 2004-05. The NSO provides both quarterly and annual estimates of output of GVA. It provides sectoral classification data on eight broad categories that includes both goods produced and services provided in the economy. These are:

- Agriculture, Forestry and Fishing.
- Mining and Quarrying.
- Manufacturing.
- Electricity, Gas, Water Supply and other Utility Services.
- Construction.
- Trade, Hotels, Transport, Communication and Services related to Broadcasting.
- Financial, Real Estate and Professional Services.
- Public Administration, Defence and other Services.

Importance of GVA
While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective.

- Both measures need not match because of the difference in treatment of net taxes.
- GDP is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (the difference between exports and imports).
- GDP = private consumption + gross investment + government investment + government spending + (exports-imports)

GVA is considered a better gauge of the economy. GDP fails to gauge the real economic scenario because a sharp increase in the output can be due to higher tax collections which could be on account of better compliance or coverage, rather than the real output situation.

A sector-wise breakdown provided by the GVA measure helps policymakers decide which sectors need incentives or stimulus and accordingly formulate sector-specific policies.

- But GDP is a key measure when it comes to making cross-country analysis and comparing the incomes of different economies.
- From a global data standards and uniformity perspective, GVA is an integral and necessary parameter in measuring a nation’s economic performance. Any country which seeks to attract capital and investment from overseas does need to conform to the global best practices in national income accounting.

Issues with GVA

- The accuracy of GVA is heavily dependent on the sourcing of data and the accuracy of the various data sources.
- GVA is as susceptible to vulnerabilities from the use of inappropriate or flawed methodologies as any other measure.